

JAN 23 2015

---

# A BILL FOR AN ACT

RELATING TO FARMS.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1       SECTION 1. The legislature finds that Hawaii imports far  
2 more goods and services than it exports. Thus, Hawaii has a  
3 significant negative trade flow. Hawaii makes up for this  
4 negative trade flow by relying on tourism and military  
5 expenditures; however, this reliance on external sources of  
6 revenue may not be sustainable in the long run.

7       The legislature also finds that the two largest trade  
8 imbalances are in the areas of energy and agriculture. Over the  
9 past few years, Hawaii has been addressing its over-reliance on  
10 imported fossil fuel. Hawaii needs to address the imbalance in  
11 agricultural trade and significantly expand food production in  
12 the State.

13       The legislature further finds that the growth of small,  
14 diversified farming businesses will add to and diversify  
15 Hawaii's economy and help redress the imbalance in agricultural  
16 trade. The State should therefore encourage and support the  
17 growth of new, small, and diversified farming businesses by





1 creating a tax exemption on the first \$50,000 of income for such  
2 businesses. A partial tax exemption for such businesses will  
3 not significantly affect existing tax revenue collected by the  
4 State but will strengthen the state economy and improve the  
5 long-term economic well-being of the State as a whole.

6 SECTION 2. Section 235-7, Hawaii Revised Statutes, is  
7 amended by amending subsection (a) to read as follows:

8 "(a) There shall be excluded from gross income, adjusted  
9 gross income, and taxable income:

10 (1) Income not subject to taxation by the State under the  
11 Constitution and laws of the United States;

12 (2) Rights, benefits, and other income exempted from  
13 taxation by section 88-91, having to do with the state  
14 retirement system, and the rights, benefits, and other  
15 income, comparable to the rights, benefits, and other  
16 income exempted by section 88-91, under any other  
17 public retirement system;

18 (3) Any compensation received in the form of a pension for  
19 past services;

20 (4) Compensation paid to a patient affected with Hansen's  
21 disease employed by the State or the United States in





1           any hospital, settlement, or place for the treatment  
2           of Hansen's disease;

3           (5) Except as otherwise expressly provided, payments made  
4           by the United States or this State, under an act of  
5           Congress or a law of this State, which by express  
6           provision or administrative regulation or  
7           interpretation are exempt from both the normal and  
8           surtaxes of the United States, even though not so  
9           exempted by the Internal Revenue Code itself;

10          (6) Any income expressly exempted or excluded from the  
11          measure of the tax imposed by this chapter by any  
12          other law of the State, it being the intent of this  
13          chapter not to repeal or supersede any express  
14          exemption or exclusion;

15          (7) Income received by each member of the reserve  
16          components of the Army, Navy, Air Force, Marine Corps,  
17          or Coast Guard of the United States of America, and  
18          the Hawaii National Guard as compensation for  
19          performance of duty, equivalent to pay received for  
20          forty-eight drills (equivalent of twelve weekends) and  
21          fifteen days of annual duty, at an:





**S.B. NO. 224**

1 (A) E-1 pay grade after eight years of service;  
2 provided that this subparagraph shall apply to  
3 taxable years beginning after December 31, 2004;

4 (B) E-2 pay grade after eight years of service;  
5 provided that this subparagraph shall apply to  
6 taxable years beginning after December 31, 2005;

7 (C) E-3 pay grade after eight years of service;  
8 provided that this subparagraph shall apply to  
9 taxable years beginning after December 31, 2006;

10 (D) E-4 pay grade after eight years of service;  
11 provided that this subparagraph shall apply to  
12 taxable years beginning after December 31, 2007;  
13 and

14 (E) E-5 pay grade after eight years of service;  
15 provided that this subparagraph shall apply to  
16 taxable years beginning after December 31, 2008;

17 (8) Income derived from the operation of ships or aircraft  
18 if the income is exempt under the Internal Revenue  
19 Code pursuant to the provisions of an income tax  
20 treaty or agreement entered into by and between the  
21 United States and a foreign country; provided that the





1 tax laws of the local governments of that country  
2 reciprocally exempt from the application of all of  
3 their net income taxes, the income derived from the  
4 operation of ships or aircraft that are documented or  
5 registered under the laws of the United States;

6 (9) The value of legal services provided by a legal  
7 service plan to a taxpayer, the taxpayer's spouse, and  
8 the taxpayer's dependents;

9 (10) Amounts paid, directly or indirectly, by a legal  
10 service plan to a taxpayer as payment or reimbursement  
11 for the provision of legal services to the taxpayer,  
12 the taxpayer's spouse, and the taxpayer's dependents;

13 (11) Contributions by an employer to a legal service plan  
14 for compensation (through insurance or otherwise) to  
15 the employer's employees for the costs of legal  
16 services incurred by the employer's employees, their  
17 spouses, and their dependents;

18 (12) Amounts received in the form of a monthly surcharge by  
19 a utility acting on behalf of an affected utility  
20 under section 269-16.3; provided that amounts retained





1 by the acting utility for collection or other costs  
2 shall not be included in this exemption;

3 (13) Amounts received in the form of a cable surcharge by  
4 an electric utility company acting on behalf of a  
5 certified cable company under section 269-134;  
6 provided that any amounts retained by that electric  
7 utility company for collection or other costs shall  
8 not be included in this exemption; ~~[and]~~

9 (14) ~~[One hundred]~~ 100 per cent of the gain realized by a  
10 fee simple owner from the sale of a leased fee  
11 interest in units within a condominium project,  
12 cooperative project, or planned unit development to  
13 the association of owners under chapter 514A or 514B,  
14 or the residential cooperative corporation of the  
15 leasehold units.

16 For purposes of this paragraph:

17 "Fee simple owner" shall have the same meaning as  
18 provided under section 516-1; provided that it shall  
19 include legal and equitable owners;





1 "Legal and equitable owner", and "leased fee  
2 interest" shall have the same meanings as provided  
3 under section 516-1; and

4 "Condominium project" and "cooperative project"  
5 shall have the same meanings as provided under section  
6 514C-1[-]; and

7 (15) The first \$50,000 of income received by a family farm,  
8 family farm community, or family farm cooperative.

9 For purposes of this paragraph:

10 "Family farm" means a farm owned or leased by an  
11 individual or family receiving more than 75 per cent  
12 of its annual gross income from food production sold  
13 for consumption within the State, whether the food is  
14 sold directly to consumers or indirectly through a  
15 family farm cooperative.

16 "Family farm community" means a parcel of land of  
17 between five hundred and five thousand acres that is  
18 subdivided into individual family farms.

19 "Family farm cooperative" means an association of  
20 family farms within a family farm community created to  
21 process or market agricultural produce."





# S.B. NO. 224

1       SECTION 3. Statutory material to be repealed is bracketed  
2 and stricken. New statutory material is underscored.

3       SECTION 4. This Act, upon its approval, shall apply to  
4 taxable years beginning after December 31, 2014; provided that  
5 the amendments made to section 235-7(a), Hawaii Revised  
6 Statutes, by section 2 of this Act shall not be repealed when  
7 that section is reenacted on January 1, 2018, pursuant to  
8 section 5 of Act 220, Session Laws of Hawaii 2012.  
9

INTRODUCED BY:

~~SEN. DC. Rich. A. Ige~~  
J. Keleoni Elish  
Rosalyn H. Baker  
Michelle  
Paul E. Pelt  
Elizabeth Keli





# S.B. NO. 224

**Report Title:**

Economic Diversification; Agriculture; Family Farm; Family Farm Community; Family Farm Cooperative; Tax Exemption

**Description:**

Creates an income tax exemption on the first \$50,000 of income for family farms, family farm communities, and family farm cooperatives.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

